

IRS News Release

Media Relations Office

Washington, D.C.

Media Contact: 202.622.4000

www.irs.gov/newsroom

Public Contact: 800.829.1040

Employer Cash Incentives for Hybrids Are Taxable

IR-2006-112, July 13, 2006

WASHINGTON — To encourage their employees to purchase environmentally-friendly hybrid cars, several companies reportedly are offering “rebates” or cash incentives to their employees in select areas to offset the purchase price of these vehicles. Just like other forms of compensation, these cash incentives are taxable compensation.

Employers should include the cash incentive amounts in employees’ compensation reported on year-end Form W-2 earnings statements. The cash incentives also are subject to income tax withholding and employment tax. The tax code provides for an exclusion from income for employee discounts only if the employer produces the product and certain other requirements are met.

The tax code already includes incentives for the purchase of hybrid cars. The Alternative Motor Vehicle Credit for hybrid vehicles applies to vehicles purchased on or after Jan. 1, 2006, and it may be as much as \$3,400 for those who purchase the most fuel-efficient vehicles.

For more information, go to IRS.gov.